



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/18/00	Bill No:	SB 1582
Tax:	Sales and Use	Author:	O'Connell
Board Position:	Support	Related Bills:	

BILL SUMMARY:

This bill would extend the existing sales and use tax exemption for the sale or use of space flight property to include ground support facilities for space flight operations.

ANALYSIS:

Current Law:

Under existing law, a sales tax is imposed on retailers for the privilege of selling tangible personal property in this state. The use tax is imposed upon the storage, use, or other consumption of tangible personal property purchased in this state. Either the sales tax or the use tax applies with respect to all sales and purchases of tangible personal property, unless that property is specifically exempted.

Under existing law, Revenue and Taxation Code Section 6380 provides a sales and use tax exemption for the sale or use of qualified property used in space flight. "Space flight" is defined under Section 6380 to mean any flight designed for suborbital, orbital, or interplanetary travel by a space vehicle, satellite, space facility, or space station of any kind. Qualified property consists of:

- Tangible personal property that has space flight capability, including, but not limited to, an orbital space facility, space propulsion system, space vehicle, satellite, or space station of any kind, and any component thereof.
- Tangible personal property to be placed or used aboard any facility, system vehicle, satellite, or station described above, regardless of whether that property is to be ultimately returned to this state for subsequent use, storage, or other consumption.
- Fuel of a quality that is not adaptable for use in ordinary motor vehicles, but is produced, sold, and used exclusively for space flight.

Proposed Law:

This bill would amend Section 6380 of the Sales and Use Tax Law to add tangible personal property to be used for the purpose of assembly, launch, or transport of space flight property and tangible personal property used in spaceport operations to the definition of qualified property.

REVISED REVENUE ESTIMATE

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

This bill would define "spaceport operations" to mean an installation and related facilities, and equipment used for the launching, landing, recovering, and monitoring of vehicles capable of entering and returning from space flight.

This bill would provide a sales and use tax exemption for materials consumed or installed by a contractor in the construction of a facility designed to launch, manufacture, fabricate, assemble, or process qualified property.

The bill would become effective immediately, but would become operative on the first day of the calendar quarter commencing more than 90 days after the date the bill is enacted.

Background:

Section 6380 was added to the Sales and Use Tax Law in the 1993 Legislative Session by SB 671 (Alquist, et al., Ch. 881). The exemption provided by Section 6380 was for space flight property originating at Vandenberg Air Force Base and contained a sunset provision of January 1, 2004. At that time, the bill was addressing Motorola Company's IRIDIUM™ project; a development of a global wireless communications network that would combine the worldwide reach of 66 low-earth-orbit satellites with land-based wireless systems to enable subscribers to communicate using handheld telephones and pagers virtually anywhere in the world. Vandenberg Air Force Base in Santa Barbara County was the only base equipped in the United States for launching these types of satellites, because of the required orbit. Since this exemption was created, deployment of its 72-satellite constellation, including in-orbit spares, has been completed (40 of those through a total of 8 launches from Vandenberg). Motorola completed the IRIDIUM™ project and introduced it to the world on November 1, 1998.

Section 6380 was amended during the 1998 Legislative Session by AB 2798 (Machado, et al., Ch. 323). This bill removed the requirement that the space flight property originate from Vandenberg Air Force Base and also removed the sunset date provision.

COMMENTS:

1. Sponsor and Purpose. According to the author's office, the California Aerospace and Technology Association, Lockheed-Martin, and Boeing are jointly sponsoring this bill. This bill is intended to demonstrate California's intent to ensure that the commercial space industry in California grows and is not lost to competitive states or countries. Currently, FAA launch facilities exist not only in California, but also in Virginia, Florida, New Mexico and Alaska. In addition to launch sites available in the United States, launch sites are available in other countries as well. Many of the launch sites available outside California offer tax incentives for commercial launches.
2. Property covered by proposed exemption. The current exemption provided by Section 6380 covers only the property that has space flight capability, property to be placed or used aboard property that has space flight capability, or fuel used exclusively for space flight.

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This bill would expand the exemption to cover property to be used for assembly, launch, or transport of space flight property. This could include property such as tools, machinery and equipment, containers, and vehicles used to transport property.

Also included in the proposed exemption would be property used in spaceport operations. Spaceport operations is defined to mean an installation and related facilities, and equipment used for the launching, landing, recovering and monitoring of vehicles capable of entering and returning from space flight. Examples of property that could be included in spaceport operations would be launch pads, landing areas, ships, cranes, computer tracking equipment and related accessories.

The proposed exemption would also provide an exemption from the gross receipts for the sale of, or the storage use or other consumption in this state of, materials consumed or installed by a contractor in the construction of a facility designed to launch, manufacture, fabricate, assemble, or process qualified property.

Contracts to furnish and install items such as runways, launch pads, and buildings are construction contracts. Generally, the contractor is regarded as the consumer of materials and the retailer of fixtures under a construction contract. A contractor would normally pay tax on the purchase price of materials consumed on the job and report tax on the retail price of fixtures sold under the construction contract. This bill would allow contractors to avoid paying tax on the purchase of materials consumed and reporting tax on fixtures sold when a construction contract is performed for the purpose of building qualified property.

COST ESTIMATE:

Some costs would be incurred in computer programming, return revisions and return processing. A detailed estimate of these costs is pending.

REVENUE ESTIMATE (Revised):

SB 1582 would exempt from the state and local sales and use tax tangible personal property used for the purpose of assembly, launch, or transport of property, whether transported to launch sites within or outside this state as well as materials consumed by a contractor in the construction of a facility designed to launch, manufacture, fabricate, assemble, or process qualified property.

Background, Methodology, and Assumptions

Under current law, the sale or use of qualified property used in space flight is exempted from taxes. Qualified property is defined as tangible personal property that has space flight capability, including, but not limited to, an orbital space facility, space propulsion system, space vehicle, satellite, or space station of any kind, and any component thereof. Qualified property is also defined as tangible personal property to be placed aboard any facility, system, vehicle, satellite, or station, regardless of whether that property is to be returned to this state for subsequent use, storage or other consumption. Also exempted is the sale or use of fuel of a quality that is not adaptable for use in ordinary motor vehicles, but is produced, sold, and used exclusively for space flight.

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Under this proposal, the sale or use of tangible personal property used for assembly, launch, or transport of property that has space flight capability will also be exempted from taxes: for example, launch pads, landing areas, ships, cranes, computer tracking equipment and related accessories. Also exempted are expenditures for materials consumed or installed by a contractor in the construction of a facility designed to launch, manufacture, fabricate, assemble, or process qualified property: for example, property and/or materials used by a contractor to construct runways, launch pads, and buildings.

Based upon figures supplied by the proponents of this bill, the total amount of expenditures that would qualify under this bill over the next three years is expected to total \$126 million the first year, \$52 million the second year, and \$15 million the third year.

Revenue Summary

The revenue impact from exempting the estimated expenditures from the state and local sales and use tax over the next three years would be as follows:

	<u>Revenue Effect</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
State Loss (5%)	\$6.3 million	\$2.6 million	\$0.8 million
Local Loss (2.25%)	\$2.8 million	\$1.2 million	\$0.3 million
Transit Loss (0.67%)	<u>\$0.8 million</u>	<u>\$0.3 million</u>	<u>\$0.1 million</u>
Total Loss	<u>\$9.9 million</u>	<u>\$4.1 million</u>	<u>\$1.2 million</u>

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